Public Debts: An Essay in the Science of Finance. By HENRY C. ADAMS, Ph.D., Lecturer on Political Economy and Finance in the University of Michigan, and Associate Professor in Cornell University. New York, D. Appleton & Co., 1887. — 8vo, xii, 407 pp.

According to Adam Smith: "Political economy, considered as a branch of the science of a statesman or legislator, proposes two distinct objects: first, to provide a plentiful revenue or subsistence for the people, or more properly to enable them to provide such a revenue or subsistence for themselves; and secondly, to supply the state or commonwealth with a revenue sufficient for the public services." This definition has been repudiated by later English economists and with unfortunate consequences. In the first place it has encouraged the separation of political economy from political science. The former is no longer a "branch of the science of a statesman or legislator." It considers only "natural" laws, and any activity of the state in economic affairs is looked upon as "interference" that is *prima facie* unauthorized and injurious. Political economy has thereby acquired a false air of abstraction and unpracticality which has been the more unfortunate as the increasingly industrial and commercial character of modern society gives a strong economic cast to almost all political questions.

A second consequence of this repudiation of Adam Smith's definition was that English political economy dropped out of its system almost entirely the second subject mentioned by him, namely, the question of state revenue. Adam Smith devoted a whole book to this subject. This book contained three chapters: one on the "Expenses of the Sovereign or Commonwealth," one on the "Sources of the General or Public Revenues of the Society," and a third on "Public Debts." In J. S. Mill the book has dwindled to a few chapters on taxation, dealing almost exclusively with its incidence and its influence on private wealth, and one chapter on public debt treated in the same way. It is true we have a few separate works on taxation and public debt, but the systematic literature in English on finance is extremely scanty.

This neglect to follow up Adam Smith's example is the more extraordinary when we consider that the operations of the English exchequer were for years more extensive than those of any other state treasury, and that the English public debt was the oldest and until very recently the largest of any in the world; that the English system of taxation was the fruit of public discussion years before budgets on the continent were subject to the people; and that Walpole, Pitt, Peel, and Gladstone have been among the greatest financiers of the world.

It is rather singular to find, too, that while English political economy has largely neglected this subject, the Germans have developed it into a

separate science distinct from political economy, namely, a *Finanzwissenschaft* or *Staatswirtschaftslehre*, and that the French have followed with a *science des finances*. The importance of the subject justifies this separate treatment. The state stands there, the greatest of all economic institutions, abstracting wealth from the community with one hand and returning it with the other. Its operations must have an immense influence on the economic prosperity of society, while the motives influencing these operations are peculiar. They are neither purely economic nor purely political nor solely administrative. The science of finance rests partly on political economy and partly on political science, while its outer framework is supplied by administrative law. It is this peculiar character of questions of finance together with the growing importance of the subject that justify the development of a "science of finance" as a separate part of political economy.

Professor Adams' book is a careful, scholarly, and extremely suggestive treatment of one of the two most important topics in finance — the other, of course, being taxation. Every treatment of either subject must be at the same time practical and theoretical. The science is so new, and the mere facts are so often unknown or not comprehended, that the first duty of an author is to give his reader information about the great financial systems of the present and the financial history of the past. But then he must, if possible, out of these facts deduce theory, criticism, and principles. Professor Adams has accomplished both of these things. His history and facts are mainly from American experience, which gives the book the value of originality, for American finance is an unexplored field. His criticisms and conclusions are acute, independent in judgment, and for the most part sound.

The plan of the book is admirably simple and clear. Part I treats of public borrowing as a financial policy; and as public debts are either national or local, and as these differ considerably in character and influence, Part II is devoted to questions of national indebtedness, and Part III to local indebtedness.

In Part I the author points out that these enormous national debts (twenty-seven thousand million dollars in all) are a phenomenon of modern times. They imply an advanced industrial civilization, for there must be a money market in which to borrow; and they imply advanced popular government, for the capitalists would not lend to governments if they did not control them themselves. The nineteenth century is the rule of the capitalist. The immediate occasion for the enormous increase of these debts in modern times is to be found in wars and internal improvements. The former have been caused by the growth of nationalism, and the latter by socialism.

Both of these latter generalizations are fascinating, but, in my opinion,

more fascinating than true. Nationalism has led to wars, but the reason why wars involve governments in debt is that the modern system of warfare is so expensive, and government pays for everything. In old times wars dragged on from year to year, but each year was made to pay for itself in some way or other. The community really paid in the free services of the citizen, in forced requisitions, in destruction of property during invasion; but when the nation was exhausted, the war stopped. At present the government pays for everything, and public credit enables the nation to hold out longer and make greater exertions. So again, it is not so much socialism that has made the performance of the internal duties of the state more expensive, as their increased arduousness, due to the growth of population and wealth, their more careful performance, and that great change in financial systems by which the state demands less and less the specific services of its citizens, and more and more money to pay trained officials.

The tendencies of public debts are very important. The author suggests that politically they are opposed to popular government, because they remove responsibility from public officials; witness the municipal extravagance in this country. Internationally they endanger the autonomy of weak states; witness the fate of Egypt. Socially, public debts tend to perpetuate class distinctions, or at least to interest a certain class in their continuance; witness the persons holding national bank stock in this country, and the holders of French *rentes*, who oppose conversion.

Undoubtedly the most important question about public debts is their industrial effect. The experience of the world has never given a definite answer to this question, and probably never will. The exact point when public borrowing will drive productive capital from employment and thus injure industry, must be determined by a great variety of circumstances and can never be the same at one time or place as at another. Professor Adams' discussion is acute and logical, and, in my opinion, a distinct advance upon the treatment of the same question by Leroy-Beaulieu, the distinguished French financier.

Part II, on national indebtedness, will be found to contain valuable criticism of the financial management of the wars of 1812 and of 1861, of the issue of legal tender notes, of the resumption of specie payments, of the appearance of the United States treasury in the money market in 1873, of refunding and of the policy of paying the debt.

Part III, on state and municipal indebtedness, is the least satisfactory portion of the book, probably because the material is so scanty and so difficult of access. Perhaps a more thorough study of local financiering abroad would have made the theoretical part more complete. Finally, the notion that our states should have their borrowing power restored,

so that they may take hold of internal improvements, will, I fancy, scarcely find much approbation. Our chief internal improvements now are railroads and telegraphs, and if the government is to take hold of them, it will be the one federal government, not thirty-eight state governments.

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The Relation of the State to Industrial Action. By HENRY C. ADAMS, Ph.D. Publications of the American Economic Association, Volume I, number 6. — 8vo, 86 pp.

Professor Adams' *Relation of the State to Industrial Action* is interesting in a double sense, both as showing what a certain class of thinkers, of whom he is so eminent a representative, really mean, and also as showing what they do not mean. The essay is a revision of a paper printed last year under the title *Principles that should control the Interference of the State in Industries;* but the ideas are materially expanded in the present monograph. Professor Adams starts with the reflection that there is at present an undeniable and increasing clamor for extension of governmental powers in social relations, and proposes to subject the demand to a searching analysis, in order to discover if possible a guiding principle. He clears the ground by discussing the doctrine of *laissez faire* as formulated by the English school, and as the outcome of the Spencerian social philosophy. This is a comparatively easy task, and has been repeatedly performed by others. Professor Adams concludes that the doctrine cannot lay claim to scientific pretensions, and that "the abandonment of its scientific pretension [by Cairnes and others] destroyed whatever authority English economy ever had as a guide for constructive economics, except so far as it is an accidental expression of the instinct of conservatism." He objects to the English political philosophy because it regards the state as a necessary evil; he equally objects to the German political philosophy because it conceives of the state as an organism complete in itself. In Germany the presumption is in favor of the state; in England the presumption is in favor of the individual. Both ideas, Professor Adams asserts, are incorrect. He would have society recognized as a unity, without any exaggeration of either public or private duties.

Coming then to the constructive side of the argument, Professor Adams maintains that the state may determine the plane of competitive action. Free competition tends to lower the moral sense of a community, to force the business man down to the moral level of the most unscrupulous competitor. Hence the economical defence for factory legislation, which does not curtail competition but simply raises the